

EXECUTIVE SECRETARIAT
ROUTING SLIP

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Remarks

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Executive Secretary
11 April 1985

Date



Executive Registry
85- 1560

THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

April 11, 1985

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF COMMERCE
THE SECRETARY OF AGRICULTURE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
DEPUTY SECRETARY OF THE TREASURY
DIRECTOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT: Senior Interagency Group on International Economic Policy

There will be a meeting of the SIG-IEP on Monday, April 15, 5:00 p.m. in the White House Situation Room. The agenda will be the U.S. position on negotiations for a Multilateral Investment Guarantee Agency. A discussion paper is attached.

Beryl W. Sprinkel
Beryl W. Sprinkel
Acting Secretary

cc: Staff Secretary and Deputy Assistant to the President
Deputy Assistant to the President for Cabinet Affairs

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Multilateral Investment Guarantee Agency

Issue

The World Bank has, with U.S. encouragement, developed a proposal for a Multilateral Investment Guarantee Agency (MIGA) which would provide political risk insurance for foreign direct investment in developing countries. The Bank is seeking agreement from its membership to proceed to negotiations on establishing the MIGA. The United States must decide whether to participate in these negotiations.

Background

Since 1981 the World Bank has been exploring the feasibility of a multilateral facility which would operate like our own OPIC, to insure investors against non-commercial risks such as currency transfer risk, expropriation and war. Following extensive discussions in the Executive Board and consultations with member countries, the World Bank staff has drafted a convention for establishing a Multilateral Investment Guarantee Agency (MIGA) and has asked members whether they wish to proceed with finalizing the convention. (This next step could be carried out by the Executive Directors meeting as a Committee of the Whole or by representatives of interested governments in a negotiating group.)

Efforts to create a MIGA-type arrangement in the 1960s and 1970s failed, largely due to objections from Latin American countries to required standards of international arbitration. The current MIGA proposal is picking up some support among both developed (Japan, Italy, Netherlands) and developing countries (African and Middle Eastern countries), although most Latin American countries still oppose it and some industrial countries (Germany and France) are skeptical. Continued U.S. support will be crucial for the eventual creation of the MIGA.

The United States believes that in the long run foreign direct investment, as a source of non-debt creating external resources, technology transfer and managerial know-how, can make an important contribution to the development process and has urged developing countries to be more open to private flows. This position is reflected not only in the 1984 OECD Ministerial Declaration and the London Summit Communique, but has been a central theme in statements by the U.S. Governor at recent Development Committee meetings. Secretaries Regan and Shultz have supported World Bank efforts to develop a MIGA proposal because the concept is generally consistent with the Administration's private sector approach to development.

The potential benefits of a MIGA cannot be fully quantified in advance. A well-structured MIGA that is financially sound, leads to policy reform in developing countries, and facilitates investment protection and dispute settlement could be a positive force in facilitating foreign direct investment flows to LDCs.

- 2 -

On the other hand, private sector political risk insurance has increased significantly in recent years, and is likely to continue to do so. Insurers and others in the U.S. private sector have mixed views on the appropriateness and desirability of establishing a potential competitor, although such organizations as the International Chamber of Commerce have expressed support.

Entering negotiations would not obligate the United States to participate in the MIGA. We would not do so unless the MIGA met our basic objectives. Interagency review of the MIGA proposal at the staff level indicates a general consensus that for the United States, a well structured MIGA would include the following important features: a clear mandate to encourage policy reform in developing countries; dispute settlement arrangements with automatic subrogation and arbitration; close policy and administrative ties to the World Bank; a conservative financial structure; a decision making structure which relates votes to financial contributions; and limitation of insurance coverage to foreign direct investment and to investments in LDCs. It will be difficult to achieve these objectives since many LDCs will find them objectionable.

If we successfully negotiate our objectives, there is a strong presumption that we will seek Congressional authorization and funding for U.S. participation in the MIGA. The cost could range from \$20-\$50 million paid-in and \$150-180 million in contingent liabilities. (The U.S. contributions would probably be tranced over a 2-3 year period.) Including funding for MIGA in the budget could require trade offs with other international programs.

Recommendation

The United States should enter into negotiations on the MIGA. The draft convention for the MIGA is an acceptable basis to begin negotiations. The United States will work toward a MIGA which is consistent with U.S. development and investment policies and incorporates the important elements outlined in the paragraph above. Treasury will consult with Congress and work with other interested agencies in developing a U.S. position for the MIGA negotiations.

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